

ACCOUNTING 404 AUDIT

Assignment Two

Professor R. Zameeruddin

zameerud@uwp.edu (262) 595-2125

This assignment is worth 25 points. It is provided to you in word so that you may type directly into the document. Your answer must be at least two pages in length double spaced. If you choose to prepare a separate document, use 1" margins all around and 12-point font. Submit your answer in Canvas in the appropriate drop box. Make a note of the due date on the syllabus and in Canvas as late work is not accepted. If you would like me to review your work prior to your final submission send me your answer via email.

TIP:

This is an Adverse Opinion on Internal Control and an Unqualified Opinion on the Financial Statements (bold emphasis added in report).

Required:

Review the external auditor's report on the integrated audit below. What are the important elements in the report related to internal control?

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Diamond Foods, Inc.

In our opinion, the accompanying consolidated balance sheet as of July 31, 2013 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the year then ended present fairly, in all material respects, the financial position of Diamond Foods, Inc. and its subsidiaries at July 31, 2013, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. **Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of July 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to the accounting for complex and non-routine transactions and due to certain key accounting personnel who have the ability to prepare and post journal entries without an independent review by someone without the ability to prepare and post journal entries existed as of that date.** A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or

detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. **We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the July 31, 2013 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.** The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois

March 27, 2019

ANSWER: